

[REDACTED] (214) 767-2728

EE:EO:TS:432:RLA

APR 14 1966

Gentlemen:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were organized to represent the homeowners of [REDACTED] area of the [REDACTED] subdivision and to organize local recreation and civic activities. The sections' present management is under the homeowners association where votes are controlled by the builders until all the lots are sold, and the civic club was formed to monitor that organization and represent the members in matters which affect them as local homeowners. Qualification for membership in the organization requires ownership of a lot in [REDACTED] p. You will purchase signs and materials in respect to neighborhood watch, and refreshments at meetings.

Your membership dues are \$[REDACTED]0 per household. You have received \$[REDACTED] in donations from members for the purpose of financing an attack on the change of restrictive covenants and conditions by the developers as [REDACTED]. Expenditures are expected to be for legal fees, costs of meetings, and costs of preparation of letters, materials, etc.

Your Constitution states that your purposes are to maintain the residential character of the community which this club represents; to safeguard the individual and collective property owners; to encourage improvements in the appearance of the homes and properties; to promote wholesome social and recreational activities for the adults and children; and to take concerted action on all matters which pertain to the welfare of the community. Membership in the club will be limited to residents within [REDACTED], who have paid annual dues.

Paid members are allowed one vote per owned lot. Builders who own vacant lots or homes that have not been sold to residents cannot vote in the Civic Club.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
is		[REDACTED]					
name							

Your newsletters indicate that you provide social and recreational programs, including the planning of a swimming pool and tennis court for the use and benefit of your members.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(7) Clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Revenue Ruling 75-494, 1975-2 C.B. 214, holds that a club whose membership is limited to homeowners in a housing development and that provides recreational facilities that afford opportunities for fellowship and social comingling is exempt from Federal income tax under section 501(c)(7) of the Code. However, maintaining the residential character of the community, safeguarding the property owners, encouraging improvements in the appearance of the homes and properties, and purchasing signs and materials in respect to neighborhood watch precludes you from qualifying for exemption under section 501(c)(7) of the Internal Revenue Code.

Some homeowner associations are able to qualify for exemption under section 501(c)(4) of the Internal Revenue Code, which describes organizations that are engaged in promoting the general welfare of the community. These organizations must be serving a public rather than a private interest.

Revenue Ruling 74-99, 1974-1 C.B. 131, generally holds that a homeowner association to qualify for exemption under section 501(c)(4) of the Code (1) must serve a "community" which bears a reasonably recognizable relationship to an area ordinarily identified as governmental, (2) it must not conduct activities directed to the exterior maintenance of private residences, and (3) the common areas or facilities it owns and maintains must be for the use and enjoyment of the general public, not just for members and their guests.

Based on the information presented, we have concluded that you do not qualify for exemption under section 501(c)(7) or 501(c)(4) of the Code. As indicated in your application and organizational documents, your main intent and purpose is to benefit your members.

Accordingly, it is held that you are not entitled to exemption from Federal income tax under section 501(c)(7) or 501(c)(4) of the Code and you are required to file Federal income tax returns on Form 1120.

As a homeowners association, you may qualify for treatment under Section 528 of the Code. You may elect such treatment for 1982 by filing Form 1120-H on or before the 15th day of the 3rd month after the end of your accounting period.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

Sincerely,

Acting District Director

Enclosures:
Publication 892
Publication 588
Form 6018 (2)
Form 1120-H